Nanuk New World Fund

APIR SLT2171AU

Monthly Report – May 2018

The Nanuk New World Fund is a long only equity fund generating its returns from investments in a universe of listed equities exposed to the broad theme of environmental sustainability. The Fund invests globally in companies involved in clean energy, energy efficiency, agriculture, water, waste management, recycling, pollution control and advanced manufacturing and materials. All of these industries are undergoing significant changes as the world tries to reconcile economic growth with longer term sustainability and are a potentially rich and ongoing source of investment returns.

The Fund seeks to hold a globally diversified, yet relatively concentrated, portfolio of positions that align with Nanuk's views on security valuation and the evolving trends within these industries. The Fund aims to achieve long term capital appreciation and outperformance of traditional global equity indices while reducing volatility of returns and risk of capital loss through appropriate diversification and risk management strategies.

Performance Summary[1] (AUD)

	1 Month	3 Months	6 Months	1 Year	2 Years p.a.	Since Inception p.a.[1]
Fund Return (%)	**0.4**	**1.7**	**4.6**	**15.7**	**17.8**	**16.1**
Benchmark Return[2] (%)	0.6	0.8	(0.8)	9.7	14.6	11.9
Value Added (%)	(0.2)	0.9	5.4	6.1	3.3	4.2
MSCI ACWI Return[3] (%)	(0.1)	1.9	2.1	10.0	12.2	8.2
Value Added (%)	0.5	(0.2)	2.5	5.7	5.6	7.9

Industry commentary

May was a busy month for the wind sector and particularly for offshore wind which has seen very significant improvements in cost competitiveness in recent years. In the US, Massachusetts awarded its first large scale (800MW) offshore wind contract to developer Vineyard Wind. New Jersey and Rhode Island also announced longer-term commitments of 3.5GW and 400MW each, bringing planned US offshore wind capacity to 8GW by 2030. For context, 1GW, or 1000MW, is equivalent to the output of a typical large coal or nuclear power station. To date the development of offshore wind has been centred in the UK and Europe, but the announcements in the US followed the issuance of preliminary contracts for development of ~3.8GW of offshore wind capacity in Taiwan, part of a larger plan to develop 5.5GW. Orsted, the leading global developer of offshore wind projects and a position held by the Fund, was one of the winning bidders. The Fund exited its position in Orsted during the month following strong performance but maintains exposure to the global growth in offshore wind through its investments in Vestas (discussed below) and Italian company Prysmian, the global leader in high voltage submarine cables.

Turning to onshore wind, Finland joined the growing list of nations with unsubsidised wind generating capacity, owing to a 21MW project to be completed in 2019. French utility Engie also announced the development of a 300MW unsubsidised wind project in Spain. Consistent with the recent global trend in regulated wind markets, China outlined plans for competitive bidding for its wind sector starting in 2019. The announcement on May 25 saw near 10% falls in the share prices of leading industry

Notes (1) Inception date 2 November 2015 (2) Benchmark return is the FTSE Environmental Opportunities All Share Total Return Index in Australian dollars (3) MSCI ACWI return is the MSCI All Countries World Index Total Return Net Index in Australian dollars
7

participants such as wind turbine manufacturer Xinjiang Goldwind, wind project developers China Longyuan and Huaneng Renewables, reflecting the increased pricing pressure that is likely as a result of the move away from fixed subsidies. In Europe, turbine manufacturer Senvion saw its bonds slip further into junk-bond territory after its CEO resigned, casting doubts over the company's plans to improve profitability and cashflow. The Fund continues to own Vestas, the world's leading wind turbine manufacturer, which remains highly profitable even at this difficult time for the industry. The company is considered to be well positioned through the current shakeout and to benefit from industry growth in coming years.

Not to be outdone, the solar industry also saw the announcement of another 300MW unsubsidised project in Spain. Unlike Engie's wind project, where the project financing is supported by 12 year power purchase agreement to sell generated electricity back to Engie, the financing of the Talasol project is unusually being undertaken without a fixed price offtake agreement, instead relying on financial hedging of wholesale power prices over 10 years. The solar industry also saw the introduction of new regulation in California which will require all new build homes to include solar from 2020, subject to exclusions relating to roof shading and size. This is a long way from a textbook example of cost-efficient regulation but will likely prove effective in increasing solar penetration. The new rules will benefit the Fund's positions in the leading rooftop inverter company (SolarEdge) and the leading US residential solar leasing business (SunRun), discussed below.

The mobility sector also saw continued progress, with autonomous vehicles (AVs) leading the way. Waymo, Google's AV division, announced plans to expand its fleet by approximately 100 times, adding 62,000 vehicles. Japanese multinational Softbank announced a $2.25b investment for a 20% stake in General Motors' AV division. The deal, announced on May 31st, saw GM's share price jump over 10%. Elsewhere Reuters reported that Mobileye, the AV software firm acquired by Intel last year, signed a contract for 8 million units for 2021, which would represent ~30% of all systems it has produced since its founding in 2007.

China provided further evidence of the rapid growth in electric vehicles, announcing April sales of electric passenger vehicles of 72,000, up 136% from the prior year. Meanwhile, Nissan announced that it would discontinue the sale of diesel passenger vehicles in Europe by 2021, following a similar announcement by Toyota earlier this year. On a smaller scale, there were reports of the first billion dollar valuation for an electric scooter sharing firm (Bird) which operates in a number of major US cities.

Another continuing trend is that of oil giants increasing investments in new energy sources. Italy's Eni announced plans for over €1b of investments to help power its operations across the globe. Meanwhile it was reported that Spain's Repsol will cease growth in its oil and gas business and limit its reserves, recognising the competitiveness of wind and solar and the shift towards electric vehicles. Norway's Statoil changed its name to Equinor, removing the reference to oil, and announced an innovative $500m project deploying floating offshore wind platforms to power some of its rigs in the North Sea. BP invested $20m in Israeli fast-charging start-up StoreDot, while Shell participated in a €60m funding round for German storage company Sonnen, as well as in a smaller round for Axiom Energy, another storage start-up.

The US Trump administration continued to buck the trend, with President Trump instructing his Energy Secretary to take steps to support the continued operation of loss-making coal and nuclear generating resources on the grounds of national security. Previous attempts to intervene in the energy market have been dismissed by the Federal Energy Regulatory Commission. In contrast Japan's Ministry of Foreign Affairs and Ministry of Environment have set targets of 100% renewable power for their offices and embassies around the world, while Japan's Ministry of Environment has established a goal of having 50 Japanese companies become part of RE100 by 2020. In Europe an amendment was passed to the energy performance of buildings directive that will require EU member countries to put in place long term plans (through to 2050) that will facilitate the cost-effective transformation of existing buildings to nearly zero-energy buildings.

Also notable in May was the continued effort by investors to improve control of environmental risks, specifically Norway's trillion dollar sovereign wealth fund, which has had climate change reporting expectations for a decade, announcing similar demands relating to methane emissions.

Market commentary

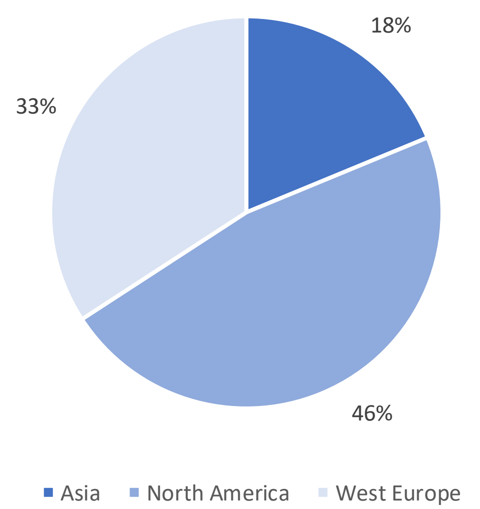
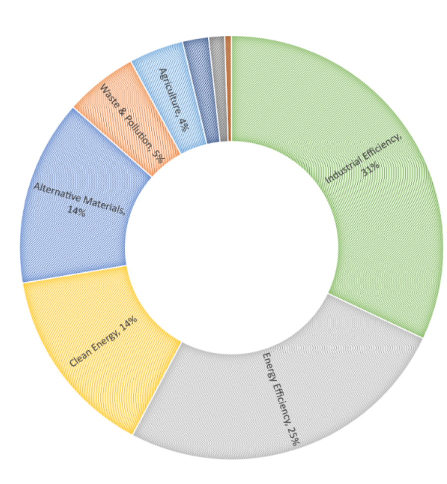
Global equity market performance was mixed in May. The MSCI All Country World Total Return Index rose 0.1% in USD terms, within which European markets fell on concerns arising from the emergence of a populist government in Italy and the spread between Italy's 10-year debt and Germany's widened by almost 100bps. Europe's Stoxx 50 fell 3.7% in local currency terms and over 7% in USD terms, reflecting Euro depreciation of circa 3% during the month. Asian markets also struggled, with Japan's Nikkei 225 down 1.2% and Hong Kong's Hang Seng index down 1.1%. The US S&P500 index bucked the trend, rising 2.2% in USD terms. Sustainability exposed companies out-performed slightly, with the FTSE Environmental Opportunities All Share Total Return Index rising 0.8% in USD terms.

Fund commentary

The Fund returned 0.4% in AUD terms in May, underperforming the FTSE Environmental Opportunities benchmark (0.6%) but outperforming the MSCI All Country World Total Return Index (-0.1%). The Fund gained around 40bps from companies exposed to the smart phone cycle, including Teradyne and ams, reversing some of the underperformance from these stocks in the prior month. These gains were roughly offset by the underperformance of European automotive component suppliers Valeo and Continental, which fell with European markets.

The Fund's solar positions benefitted from the California policy announcement highlighted above, with SunRun up 25% and SolarEdge up 5%. SolarEdge also executed the first step in its acquisition strategy which aims to deploy its leading inverter technology beyond the solar industry. SolarEdge acquired another Israeli company which operates in uninterrupted power supplies (UPS), a market that is bigger and faster-growing than solar inverters. Other Fund contributors during the month included TKH Group, a European automation systems integrator, which reported strong double digit earnings growth, as well as at Murata, the Japanese electronics giant which reported a strong result.

At the end of May 2018 the Fund's largest sector exposures are in composite materials, sustainable materials, waste management, high speed rail, automotive electrification and autonomy, building energy efficiency, the industrial internet of things and industrial automation. The Fund remains well diversified from both a sector and geographic perspective, and we believe is well positioned to continue to benefit from investments in the secular themes of environmental sustainability and resource efficiency in a socially responsible and ethical manner.

Regional Weights (%)	Sector Weights (%)
	

Top 10 Holdings as at 31 May 2018

Security Name	Weight (%)	Country	Sector
Valeo SA	4.6	FRANCE	Energy Efficiency
Lenzing AG	4.2	AUSTRIA	Alternative Materials
Toray Industries, Inc.	3.6	JAPAN	Alternative Materials
Carlisle Companies Incorporated	3.5	UNITED STATES	Energy Efficiency
Lear Corporation	3.4	UNITED STATES	Energy Efficiency
Waste Management, Inc.	3.2	UNITED STATES	Waste & Pollution
3M Company	3.0	UNITED STATES	Alternative Materials
Coherent, Inc.	2.8	UNITED STATES	Industrial Efficiency
Teradyne, Inc.	2.4	UNITED STATES	Industrial Efficiency
Vestas Wind Systems A/S	2.4	DENMARK	Clean Energy

Fund Details

Fund Name	Nanuk New World Fund	Currency	AUD
Type	Global Equity	Subscriptions	Daily
Domicile	Australia	Minimum Subscription	AUD 50,000
Investment Manager & Trustee	Nanuk Asset Management Pty Ltd	Redemptions	Daily
Administrator & Custodian	RBC Investor Services Trust	Notice period	1 Day
Inception	2 November 2015	Buy-Sell spread	0.25%
Management Fee	0.8%	Total management costs	1.2%
AUM *(31 May 2018)*	AUD 75m		

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